中油港燃能源集團控股有限公司
CHINA OIL GANGRAN ENERGY GROUP HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 8132

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE FINAL RESULTS AND ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2018

Reference is made to the final results announcement for the year ended 31 March 2018 ("**Announcement**") of China Oil Gangran Energy Group Holdings Limited ("**Company**") dated 29 June 2018 and annual report for the financial year ended 31 March 2018 ("**Annual Report**") of the Company. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement and the Annual Report.

DISCLAIMER OF OPINION

(1) Prepayments to suppliers in connection with purchases of inventories

References are made to pages 31 and 32 of the Announcement and pages 48 to 50 of the Annual Report.

The Board would like to provide the following supplemental information to the shareholders of the Company.

Company A – Jiangxi Yuanzhu Trading Co., Ltd*（江西源助貿易有限公司）

Company A's principal businesses as stated in its business licence include chemical products, construction materials, electronic products and technology. Company A has Han Lei*（韓垒）and He Zhaohui*（何照輝）as its shareholders, and Han Lei*（韓垒）as its director and legal representative. Based on publicly available records and to the best knowledge of the Board having made due inquiries, Company A and its ultimate beneficial owners are independent from the Company and its connected persons within the meaning of GEM Listing Rules.

The subject matter of the Chemical Purchase Contract was seven chemical products of 1,250 tonnes to 2,500 tonnes and RMB4,624 to RMB5,095 per tonne. The prepayment amounting to approximately RMB36,428,000 (equivalent to HK$45,524,000) were made pursuant to the terms of the contract.

The Board understands from the management that (i) the making of the prepayments and the amounts involved were in line with and determined having regard to industry practice; and (ii) all of the purchases of chemical products carried out by the Group during the financial year ended 31 March 2017 involved making prepayments of 100% of the amounts purchased. The Board also understands from the management that before entering into the contract, they had noted the following two matters in relation to Company A. First, Company A has been designated by a potential business partner of the Company based in Zhejiang Province and named "舟山市霖源石油化工有限公司" ("**Zhoushan**") for trading of chemical products in Jiangxi Province and thus the Chemical Purchase Contract was entered into with Company A. Second, Company A had already secured the chemical products via a back-to-back contract with its supplier and hence Company A would be in a position to honour its delivery obligations under the Chemical Purchase Contract.

The Company has not conducted any previous trading transaction with Company A and has no current trading with Company A.

The Board notes that Company A has issued a confirmation dated 26 June 2018 undertaking that a sum of RMB20,000,000 would be refunded before 27 June 2018 and that the balance of the prepayment would be refunded before 31 August 2018 ("**Company A's confirmation**"). Given that the undertaking to refund RMB20,000,000 has been duly honoured, the Board reasonably believes that the balance of the outstanding prepayment will be recovered and the related audit disclaimer should therefore be removed, and also there will not be any brought forward impact to the opening balances in 2019 or any corresponding comparative figures in the Company's financial statement for the year ending 31 March 2019. If the amount is not refunded by that date, the Board will (i) consider taking legal action to recover the same; and/or (ii) subject to legal and other professional advices, make provision of the amount in full in the Company's financial statement for the year ending 31 March 2019.

The non-performance of the Chemical Purchase Contract was due to changes in environmental regulations which caused an upward fluctuation in the prices of the underlying materials for the contracted chemical products, and which in turn had adverse impact on the production of the contracted chemical products. This was unforeseeable at the time of contracting, and caused the parties to terminate the contract.

As the subject matter of the Chemical Purchase Contract is in line with the Company's existing business of sales of refined oil and chemicals, the Chemical Purchase Contract is in the ordinary course of the Company's business and the trading transaction thereunder when completed is of a revenue nature. In arriving at the above conclusion, the four factors set out in sub-paragraphs (a) to (d) in Note 4 to Rule 19.04(1) have been taken into account as set out below:

"*(a) Whether previous transactions or recurring transactions that were of the same nature were treated as notifiable transactions*" – Previous transactions or recurring transactions that were of the same nature have not been treated as notifiable transactions.

"*(b) The historical accounting treatment of its previous transactions that were of the same nature*" – Historically previous transactions of the same nature have been treated as revenue.

"*(c) Whether the accounting treatment is in accordance with generally acceptable accounting standards*" – Yes.

"*(d) Whether the transaction is a revenue or capital transaction for tax purposes*" – When the transaction is completed, it is a revenue nature for tax purpose.

In addition, given that Company A and its ultimate beneficial owners are independent from the Company and its connected persons within the meaning of the GEM Listing Rules, Chapters 19 and 20 of the GEM Listing Rules are not applicable.

***Company B – Shenzhen City Jinxinbao International Trading Co., Ltd**（深圳市金信保國際貿易有限公司）**

Company B's principal businesses as stated in its business licence include domestic and international trading of goods and technology. Company B has Pan Minjia*（潘敏佳）as its shareholder, director and legal representative. Based on publicly available records and to the best knowledge of the Board having made due inquiries, Company B and its ultimate beneficial owner are independent from the Company and its connected persons within the meaning of GEM Listing Rules.

The subject matter of the Copper Purchase Contract was oxygen-free copper of 675 tonnes of RMB50,120 per tonne. The prepayment of RMB30,000,000 (equivalent to HK$35,444,000) was made by Subsidiary B pursuant to the terms of the contract.

The Board understands from the management that the making of the prepayment and the amount involved were in line with and determined having regard to industry practice.

The Company has not conducted any previous trading transaction with Company B. Apart from the Copper Purchase Contract, the Company has no current trading with Company B. Delivery of the copper purchased from Company B has not taken place and is pending Subsidiary B's negotiations with reference to market conditions with a potential buyer of the subject copper to make an onward sale to the potential buyer, failing which the Board understands from its management that there would be two alternatives to address the situation: (i) the subject copper would be used for the Group's manufacturing or (ii) the RMB30,000,000 would be refunded by October 2018. Given that the Company may resort to either of the above alternatives should the onward sale fail to materialise, the Board reasonably believes that there is no need to make any provision for this amount in the Company's financial statement for the year ending 31 March 2019 and the related audit disclaimer should therefore be removed, and also there will not be any brought forward impact to the opening balances in 2019 or any corresponding comparative figures in the Company's financial statement for the year ending 31 March 2019.

The Board, having regard to the amount involved, believes that any financial impact on the Company will be immaterial.

As the subject matter of the Copper Purchase Contract related to the Company's manufacture and sale of power cords and served as a form of hedging of the raw material price fluctuations for that business, the Copper Purchase Contract is in the ordinary course of the Company's business and the trading transaction thereunder when completed is of a revenue nature. In arriving at the above conclusion, the four factors set out in sub-paragraphs (a) to (d) in Note 4 to Rule 19.04(1) have been taken into account as set out below:

"*(a) Whether previous transactions or recurring transactions that were of the same nature were treated as notifiable transactions*" – Previous transactions or recurring transactions that were of the same nature have not been treated as notifiable transactions.

"*(b) The historical accounting treatment of its previous transactions that were of the same nature*" – Historically previous transactions of the same nature have been treated as revenue.

"*(c) Whether the accounting treatment is in accordance with generally acceptable accounting standards*" – Yes.

"*(d) Whether the transaction is a revenue or capital transaction for tax purposes*" – When the transaction is completed, it is a revenue nature for tax purpose.

In addition, given that Company B and its ultimate beneficial owners are independent from the Company and its connected persons within the meaning of the GEM Listing Rules, Chapters 19 and 20 of the GEM Listing Rules are not applicable.

***Company C – Shantou City Jiali Trading Co., Ltd.**（汕頭市嘉麗貿易有限公司）**

Company C has received the sum of RMB8,670,000 as the agent of a supplier, Fuyu Zhongyou Energy Saving Co., Ltd.*（扶余中油節能環保有限公司）("**Fuyu**"), and this sum was for the purchase of 50,000 tonnes of Liquefied Natural Gas (LNG) at RMB3,468 per tonne at 5% margin. No relevant purchase agreement has been entered into with Company C because the terms of purchase were already set out in an agreement between Subsidiary C and Fuyu ("**LNG Purchase Contract**"), and Fuyu has instructed that the RMB8,670,000 be paid to Company C as its agent.

Based on publicly available records and to the best knowledge of the Board having made due inquiries, Fuyu and Company C and their respective ultimate beneficial owners are independent from the Company and its connected persons within the meaning of GEM Listing Rules.

The Board understands from the management that the making of the prepayment and the amount involved were in line with and determined having regard to industry practice.

The Board also understands from the management that the amount of RMB8,670,000 was already lower than the market prices during the material times.

The Company has not conducted any previous trading transaction with Company C or Fuyu. The board understands from the management that Fuyu was duly licensed to carry out business in energy related areas and was reputable in the industry. Apart from the LNG Purchase Contract, the Company has no current trading with Company C or Fuyu. Delivery of the LNG has not occurred and is scheduled to take place on or before September 2018 in Hebei and Beijing. If the amount is not refunded by that date, the Board will (i) consider taking legal action to recover the same; and/or (ii) subject to legal and other professional advices, make provision of the amount in full in the Company's financial statement for the year ending 31 March 2019. Given the foregoing, the board believes that the related audit disclaimer will be removed, and also there will not be any brought forward impact to the opening balances in 2019 or any corresponding comparative figures in the Company's financial statement for the year ending 31 March 2019.

The Board, having regard to the amount involved, believes that any financial impact on the Company will be immaterial.

As the subject matter of the LNG Purchase Contract related to the Company's business of trading in energy products, the LNG Purchase Contract is in the ordinary course of the Company's business and the trading transaction thereunder when completed is of a revenue nature. In arriving at the above conclusion, the four factors set out in sub-paragraphs (a) to (d) in Note 4 to Rule 19.04(1) have been taken into account as set out below:

"*(a) Whether previous transactions or recurring transactions that were of the same nature were treated as notifiable transactions*" – This factor is not applicable as there has been no previous transactions or recurring transactions of the same nature.

"*(b) The historical accounting treatment of its previous transactions that were of the same nature*" – This factor is not applicable as there has been no previous transactions or recurring transactions of the same nature.

"*(c) Whether the accounting treatment is in accordance with generally acceptable accounting standards*" – Yes.

"*(d) Whether the transaction is a revenue or capital transaction for tax purposes*" – When the transaction is completed, it is a revenue nature for tax purpose.

In addition, given that Fuyu and Company C and their respective ultimate beneficial owners are independent from the Company and its connected persons within the meaning of the GEM Listing Rules, Chapters 19 and 20 of the GEM Listing Rules are not applicable.

Auditors' failure to receive direct audit confirmation

The Board understands from Company B that it did not handle the auditor's request promptly and it only posted the confirmation on 5 July 2018. According to the auditors, they received the confirmation in the second week of July 2018.

The Board understands that Company C, having acted merely as an agent of Fuyu to receive the prepayment, did not see fit to handle the auditor's confirmation which was in relation to the underlying contract between Fuyu and Subsidiary A.

Provision to auditors of appropriate audit evidence/management explanation on background and nature of prepayment for each of the Chemical Purchase Contract, the Copper Purchase Contract and the LNG Purchase Contract

The usual trading practice of the Group is that when a trade is open or soon thereafter, a buyer is found for the goods contracted under that particular trade thereby closing the trade. As such, the Group's management, particularly those based in the PRC, was not accustomed to handling the auditors' request directed at the Group's Hong Kong headquarters for audit evidence and explanation for the trades in the Chemical Purchase Contract, the Copper Purchase Contract and the LNG Purchase Contract, which, due to market conditions and other unforseeable reasons, did not close before 31 March 2018.

The Company is working towards the matters required by the auditors stated below so as to provide them with sufficient and appropriate audit evidence.

Chemical Purchase Contract

The Company's auditors have noted Company A's confirmation in response to the correspondence of 16 June 2018 issued by Subsidiary A evincing its intention to terminate the Chemical Purchase Contract and Company's A refund of RMB20,000,000. The Company's auditors have indicated that, subject to the full refund of the balance of the prepayment (in the sum of RMB16,428,000) per Company A's confirmation, they would have sufficient and appropriate audit evidence for assessing whether any accounting impact of the Chemical Purchase Contract for the year ending 31 March 2019 would be fairly stated.

Copper Purchase Contract

The Company's auditors have indicated that, subject to delivery of the copper products contracted for under the Copper Purchase Contract and sale of the same, they would have sufficient and appropriate audit evidence for assessing whether any accounting impact of the Copper Purchase Contract for the year ending 31 March 2019 would be fairly stated.

LNG Purchase Contract

The Company's auditors have indicated that, subject to delivery of the LNG contracted for under the LNG Purchase Contract and sale of the same, they would have sufficient and appropriate audit evidence for assessing whether any accounting impact of the LNG Purchase Contract for the year ending 31 March 2019 would be fairly stated.

(2) Deposits for renovation of vessels and transportation services

References are made to page 33 of the Announcement and page 50 of the Annual Report.

The Board would like to provide the following supplemental information to the shareholders of the Company.

Based on progress reports and inspections carried out by the Company's management, the Board understands from the managements that the services contracted under the Renovation Contract have been substantially performed and are expected to be completed on or before September 2018. Given the above, the Board reasonably believes that there is no need to make any provision in the Company's financial statement for the year ending 31 March 2019, and that the conditions required by the auditors (see below) will be satisfied, and therefore the related audit disclaimer will be removed, and also there would not be any brought forward impact to the opening balances in 2019 or any corresponding comparative figures in the Company's financial statement for the year ending 31 March 2019.

According to the Renovation Contract dated 15 August 2017 ("**Renovation Contract**"), during the period from 15 August 2017 to 14 August 2018, Company A would procure services including renovation of shipping vessel, installation of fire safety equipment and transportation of oil services at the Subsidiary A's six oil refill points in Jiangxi Province, namely, Huikou (湖口), Lanfeng (蘭豐), Duchange (都昌), Xingzhi (星子), Hongguang (紅光) and Ruichang (瑞昌) at an aggregate contract sum of RMB23,150,000, of which RMB18,000,000 related to renovation in accordance with standard issued by a state-owned enterprise, RMB2,050,000 to installation, and RMB3,100,000 to transportation of oil at the rate of RMB75 per tonne, and Subsidiary A would make prepayment in the sum of RMB22,000,000.

The Board understands from the management that the making of the prepayment and the amount involved was in line with and determined having regard to industry practice.

The Company had repeatedly demanded for the progress reports in relation to the performance of the Renovation Contract. The Board had been given to understand that the progress reports were compiled by a third party, Jiangxi Yangzi Vessel Co., Ltd.*（江西揚子船舶制造有限公司）, a company having 10 years' experience in vessel renovation services and which provided the services under the Renovation Contract, and such reports would usually be prepared at the advanced stage of the services and their release to the Company were subject to various sign-off procedures. Accordingly, the Company was unable to obtain such reports for its auditors on a timely basis.

The Company had provided a summary of the progress to the auditors although the auditors did not consider it to be sufficient audit evidence.

The Company is working towards the matters required by the auditors stated below so as to provide them with sufficient and appropriate audit evidence.

The Company's auditors have indicated that, subject to (i) provision of invoices in respect of the service performed and (ii) progress report verified by an independent third party and (iii) interview of the relevant parties to their satisfaction, they would have sufficient and appropriate audit evidence for assessing whether any accounting impact of the Renovation Contract for the year ending 31 March 2019 would be fairly stated.

As one of the Company's existing businesses is sales of refined oil and gasoline and using shipping vessels to deliver, transport and refill the same, the renovation of shipping vessels and the other services provided in the Renovation Contract are in the ordinary course of the Company's business and when completed is of a revenue nature. In arriving at the above conclusion, the four factors set out in sub-paragraphs (a) to (d) in Note 4 to Rule 19.04(1) have been taken into account as set out below:

"*(a) Whether previous transactions or recurring transactions that were of the same nature were treated as notifiable transactions*" – This factor is not applicable as there has been no previous transactions or recurring transactions of the same nature.

"*(b) The historical accounting treatment of its previous transactions that were of the same nature*" – This factor is not applicable as there has been no previous transactions or recurring transactions of the same nature.

"*(c) Whether the accounting treatment is in accordance with generally acceptable accounting standards*" – Yes.

"*(d) Whether the transaction is a revenue or capital transaction for tax purposes*" – When the transaction is completed, it is a revenue nature for tax purpose.

In addition, given that Company A and its ultimate beneficial owners are independent from the Company and its connected persons within the meaning of GEM Listing Rules, Chapters 19 and 20 of GEM Listing Rules are not applicable.

(3) Deposit paid for procurement of inventory

References are made to pages 33 and 34 of the Announcement and page 51 of the Annual Report.

The Board would like to provide the following supplemental information to the shareholders of the Company.

Company D, Mark Profit Worldwide Limited, is a Hong Kong incorporated company with its registered office at Kwun Tong, Kowloon. Its sole director and shareholder is Zhang Guoqin ("**Mr. Zhang**"). It is principally engaged in the business of energy trading. Based on publicly available records and to the best knowledge of the Board having made due inquiries, Company D and its ultimate beneficial owner is independent from the Company within the meaning of GEM Listing Rules. Company D has been referred to the Company by a company, Zhejiang Zhoushanzhongcheng Petrochemical Co., Ltd*(浙江舟山中晟石油化工有限公司), a long-time business partner of the Company in energy trading, according to which Company D and Mr. Zhang have years of experience and are reputable in the energy trading area. The Board understands from the management that in addition to the aforementioned referral, they were also confident of Company D's strength in the energy trading area as during their negotiations with Company D, it had introduced a few United States based buyers which gave the Group purchase orders for energy products.

The deposit of HK$25,000,000 was a sum of earnest money paid to Company D so that the Company D would facilitate the Company's entry into the trading of core oil and gasoline starting with jet fuel colonial grade 54. Terms of the purchase have not been finalized as they are dependent on the prevailing market conditions and could only be determined at the time when a willing buyer for the product is found. Therefore, no purchase has occurred and no relevant purchase agreement has been entered into.

The Board understands from the management that the payment of the earnest money for the purpose stated in the above paragraph and the amount involved were in line with and determined having regard to industry practice.

The Board, having regard to the amount involved, believes that any financial impact on the Company will be immaterial.

Trading of energy has been part of the Company's existing businesses. The payment of the earnest money to Company D is part of the Company's plan to expand into the trading of core oil and gasoline starting with jet fuel colonial grade 54, therefore, it is in the ordinary course of the Company's existing businesses, and when the transactions contemplated are completed, it is of a revenue nature. In arriving at the above conclusion, the four factors set out in sub-paragraphs (a) to (d) in Note 4 to Rule 19.04(1) have been taken into account as set out below:

"*(a) Whether previous transactions or recurring transactions that were of the same nature were treated as notifiable transactions*" – This factor is not applicable as there has been no previous transactions or recurring transactions of the same nature.

"*(b) The historical accounting treatment of its previous transactions that were of the same nature*" – This factor is not applicable as there has been no previous transactions or recurring transactions of the same nature.

"*(c) Whether the accounting treatment is in accordance with generally acceptable accounting standards*" – Yes.

"*(d) Whether the transaction is a revenue or capital transaction for tax purposes*" – When the transaction is completed, it is a revenue nature for tax purpose.

In addition, given that Company D and its ultimate beneficial owner are independent from the Company and its connected persons within the meaning of GEM Listing Rules, Chapters 19 and 20 of GEM Listing Rules are not applicable.

Changing market conditions meant that trading in jet fuel colonial grade 54 no longer appeared to be prospective and the Company and Company D have agreed that the earnest money of HK$25,000,000 would be returned to the Company on or before 30 September 2018. In view of the above and the requirements of the auditors (see below), the Board reasonably believes that the related audit disclaimer will be removed, and also there will not be any brought forward impact to the opening balances in 2019 or any corresponding comparative figures in the Company's financial statement for the year ending 31 March 2019. If the amount is not refunded by that date, the Board will (i) consider taking legal action to recover the same; and/or (ii) subject to legal and other professional advices, make provision of the amount in full in the Company's financial statement for the year ending 31 March 2019.

Given the background set out in the above paragraph, the Board understands that Company D did not see fit to respond to the auditors' confirmation.

Insufficient appropriate audit evidence or management explanation on background of Company D or the nature of the deposit was provided to the auditors as the relevant materials could not be procured from Company D through the PRC based management of the Company on a timely basis.

The Company is working towards the matters required by the auditors stated below so as to provide them with sufficient and appropriate audit evidence.

The Company's auditors have indicated that subject to (i) entering into of documentation between the Company and Company D in respect of the return of the earnest money in full and that the Company will not be liable in any way as a result of the payment of the earnest money and the trading business contemplated and (ii) return of the earnest money in full to the Company, they would have sufficient and appropriate audit evidence for assessing whether any accounting impact of the deposit paid for the year ending 31 March 2019 would be fairly stated.

(4) Other receivables in relation to termination of advertising services

References are made to pages 34 and 35 of the Announcement and pages 51 and 52 of the Annual Report.

The Board would like to provide the following supplemental information to the shareholders of the Company.

Company E, Xianghefu Trading Co., Limited, is incorporated in Hong Kong with its registered office at Wanchai, Hong Kong, and Huang Tesheng as its shareholder and director. Company F, Skyline International (Hong Kong) Consultancy Company Limited, is incorporated in Hong Kong with its registered office at Sheung Wan, Hong Kong, and Yung Wai Man as its shareholder and director.

Company E and Company F and their respective ultimate beneficial owners are independent from the Company and its connected persons within the meaning of GEM Listing Rules.

The prepayments were made to Company E and Company F in consideration of their agreeing to provide all advertising services for a large-scale multi-disciplinary project of a subsidiary of the Company in trading, logistics and clean energy at a site occupying some 2,200 acres in Shenyang, PRC, and their preparatory work in that regard.

In relation to the background of Company E and Company F, the Company had reviewed advertising materials and other records related to past advertising projects undertaken by the directors of Company E and Company F.

According to the Advertising Contract, Company E and Company F would support the Company on graphic design of brand promotion in China and Hong Kong and other assigned tasks during the period 1 April 2017 to 31 March 2018 and Company would pay Company E HK$5,000,000 and Company F HK$2,000,000.

The Board understands from the management that the payment of the prepayments and the amount involved were in line with and determined having regard to industry practice of the advertising industry targeting large-scale project involving governmental authorities in the area.

Discussions with the authorities in Shenyang about the large-scale multi-disciplinary project did not proceed as expected. In addition, the Company was not satisfied with the preliminary advertising clips and products prepared by Company E and Company F for the large-scale multi-disciplinary project. In view of the above, the Company decided to terminate the advertising services.

According to the Refund Policy, Company E and Company F would refund the service fee amounting to HK$5,000,000 and HK$2,000,000 respectively with a lump-sum interest amounting to HK$250,000, which have already been paid in full to the Company.

The Board was given to understand that, Company E and Company F, in view of the refund commitment and that their business relationship with the Company was coming to an end, were no longer interested to respond to the Company's auditors.

A copy of the advertising contract and materials related to the large-scale multi-disciplinary project had been provided to the auditors although the auditors were not satisfied with the contents. The Company had not kept copies of the advertising materials it had reviewed as part of its assessment of Company E and Company F, and could not procure them from Company E and Company F on a timely basis to the auditors.

The Company is working towards the matters required by the auditors stated below so as to provide them with sufficient and appropriate audit evidence.

The Company's auditors have indicated that, subject to being provided with supporting materials that the large-scale multi-disciplinary project have been terminated, they would have sufficient and appropriate audit evidence for assessing whether any accounting impact of the Advertising Contract for the year ending 31 March 2019 would be fairly stated.

The Board, having regard to the above requirements of the auditors, reasonably believes that the requirements will be fulfilled in due course and therefore the related audit disclaimer will be removed, and also there will not be any brought forward impact to the opening balances in 2019 or any corresponding comparative figures in the Company's financial statement for the year ending 31 March 2019.

The Advertising Services were for promoting a large-scale multi-disciplinary project of the Company in the areas of trading, logistics and clean energy, which areas are in line with the Company's existing businesses. Therefore, the Advertising Contract and the services contemplated thereunder were in the ordinary course of the Company's business and were of a revenue nature. In arriving at the above conclusion, the four factors set out in sub-paragraphs (a) to (d) in Note 4 to Rule 19.04(1) have been taken into account as set out below:

"*(a) Whether previous transactions or recurring transactions that were of the same nature were treated as notifiable transactions*" – Previous transactions or recurring transactions that were of the same nature have not been treated as notifiable transactions.

"*(b) The historical accounting treatment of its previous transactions that were of the same nature*" – Historically previous transactions of the same nature have been treated as revenue.

"*(c) Whether the accounting treatment is in accordance with generally acceptable accounting standards*" – Yes.

"*(d) Whether the transaction is a revenue or capital transaction for tax purposes*" – When the transaction is completed, it is a revenue nature for tax purpose.

In addition, given that Company E and Company F and their ultimate beneficial owners are independent from the Company and its connected persons, Chapters 19 and 20 of the GEM Listing Rules are not applicable.

(5) Insufficient information relating to a subsidiary

References are made to page 35 of the Announcement and page 52 of the Annual Report in relation to Company G.

The Board would like to provide the following supplemental information to the shareholders of the Company.

Company G refers to Naimanqi Xingshi Shakuang Company Limited*（奈曼旗興世砂礦有限公司）, a PRC company licensed to carry out sales and development of minerals; is wholly owned by Songyuanshike New Energy Co., Ltd.*（松原世科新能源有限公司）("**Songyuan**"); and has Wang Zhanwei*（王佔偉）as its legal representative and executive director and Wang Li*（王力）as its supervisor.

The Board understands that Subsidiary C proposed to acquire the entire equity interest in Company G with a capital requirement of RMB21,000,000 at a consideration of RMB2,650,000 with completion on 21 December 2017 and for this purpose Subsidiary C entered into an agreement dated 21 December 2017 with the vendor of the equity interest, that is, Songyuan, which is licensed to carry out energy trading and owned as to 98% by its supervisor Dong Fuan*（董福安）and 2% by its legal representative Gao Yumin*（高玉文）and which (together with its ultimate beneficial owner) is independent from the Company and its connected persons within the meaning of GEM Listing Rules according to publicly available records and to the best knowledge of the Board having made due inquiries. The Board also understands that the RMB2,650,000 came up during discussions between the legal representative of Subsidiary C and the vendor with reference to a valuation report of Company G. The matter was brought to a meeting of the executive Directors on 21 December 2017 for approval but was rejected by the executive Directors on the ground of insufficient information and due diligence about Subsidiary C's proposal and who also resolved to terminate the matter. The Group did not pay the RMB2,650,000 or any other consideration for the proposed acquisition.

Notwithstanding the above, the legal representative of Subsidiary C proceeded with filing the relevant documents at the PRC authority for transferring the equity interests in Company G to itself without any consent or authorization from the Board.

The Board had no knowledge about the transfer until around 21 June 2018 when the auditors brought the matter to the Board's attention and queried the completeness of the books and records of Company G.

The Board explained to the auditors that they had rejected and terminated the matter on the ground of insufficient information and due diligence, and then took steps to rectify the documents filed at the PRC authority, and the rectification was carried out on 29 June 2018. The Board has since obtained PRC legal advice which indicates that, from a PRC legal perspective the Group has never obtained control over Company G.

The Company's auditors have indicated that, based on the PRC legal advice, they consider that the Group has never had control over Company G and the results and financial position of Company G should not be consolidated into the Group for the year ending 31 March 2019. The Board therefore reasonably believes that the related audit disclaimer will be removed for the year ending 31 March 2019.

For the reasons stated above, and that no ratio under the size tests referred to in Chapter 19 of the Listing Rules exceeds 5%, Chapters 19 and 20 of the GEM Listing Rules are not applicable.

View of the Audit Committee

In relation to the disclaimers of opinion issued by the auditors on the matters under sub-headings 1 to 5 above, the Audit Committee states that:

(a) it notes the disclaimers of opinions;

(b) before the publication of the Announcement it had not been apprised of the details any of the matters referred to in the disclaimers of opinion and accordingly it was not in a position to comment on the same;

(c) as it only became aware of the disclaimers of opinion on or around 21 June 2018, it did not have the opportunity to critically review the major judgemental areas before the publication of the Announcement;

(d) it has made the following recommendations:

  (i) a special committee be formed to review the matters referred to in the disclaimer of opinions; and

  (ii) the Company's internal controls be strengthened.

(e) since the publication of the Announcement, it has had numerous discussions with the rest of the Board;

(f) in relation to the various understandings and beliefs of the rest of the Board stated in this announcement including those insofar as they relate to major judgemental areas and to removing the disclaimers of opinions for the financial year ended 31 March 2019, it shares those understanding and beliefs; and

(g) its view in (f) above is subject to the findings and/or recommendations of the Internal Control Consultant and the Special Committee (see below under the heading "FORMATION OF THE SPECIAL COMMITTEE AND ENGAGEMENT OF INTERNAL CONTROL CONSULTANT").

View of the Board

The Board notes and agrees with the statements and recommendations of the Audit Committee set out above.

The Board wishes to state that the disclaimers of opinion should be considered in light of the circumstances and explanations in relation to the matters giving rise to the disclaimers as stated in this announcement. Accordingly, the Board (including the independent non-executive Directors) is of the view that they have discharged their fiduciary duties to act in the interest of the Company and its shareholders as a whole and their duties of skill, care and diligence to safe guard the Company's assets.

For the audit of the financial statements for the year ending 31 March 2019, the Board (including members of the Audit Committee) have discussed with the auditors to ensure that the upcoming audit plan will have in place mechanism for monthly reporting to the Audit Committee of (i) progress and (ii) special issues for consideration (if any) throughout the audit until the issue of the auditors opinion.

INTERNAL CONTROL PROCEDURES

With respect to the contracts set out in Table A below, internal control procedures including the applicable general controls and application controls at the relevant entity of the Group had been applied before entering into of the contracts and the making of the respective prepayments.

Contracts entered into by subsidiaries of the Company had been approved by the board of directors or supervisory board of the relevant subsidiary, and contracts entered into by the Company had been approved by the executive Directors.

Please see Table A below for a summary of the internal control procedures and approvals in relation to the contracts set out therein.

Table A

Contract	Outside entity involved	Company/ subsidiary making the payment	Position of the person signing contract on behalf of the Company/ subsidiary	Internal controls
Chemical Purchase Contract	Company A	Subsidiary A	Legal representative	Applicable procedures applied
Copper Purchase Contract	Company B	Subsidiary B	Legal representative	Applicable procedures applied
LNG Contract	Company C and Fuyu	Subsidiary A	Legal representative	Applicable procedures applied
Renovation Contract	Company A	Subsidiary A	Legal representative	Applicable procedures applied
Deposit for procurement of inventory	Company D	Company	Executive Director	Applicable procedures applied
Advertising Contract	Company E and Company F	Company	Executive Director	Applicable procedures applied

Table B below summaries the outstanding prepayments in respect of the contracts set out therein. The reasons for the prepayments to remain outstanding as at 31 March 2018 and the date of this announcement are set out under the relevant sub-headings in respect of the contracts on pages 1 to 14 of this announcement, which broadly speaking, are due to changing business or market conditions unforseeable at the time of the entering into the relevant contracts and not a direct result of the application or otherwise of the internal control procedures. Please also refer to pages 1 to 14 of this announcement for measures to recover the prepayments.

Table B

Contract	Outside entity involved	Outstanding prepayment as at 31 March 2018	Outstanding prepayment as at date of this announcement	Measure to recover prepayments
Chemical Purchase Contract	Company A	RMB36,428,000 (HK$45,524,000)	RMB16,428,000 (HK$20,530,000)	See under the subheading "Chemical Purchase Contract" above
Copper Purchase Contract	Company B	RMB30,000,000 (HK$35,444,000)	RMB30,000,000 (HK$35,444,000)	See under the subheading "Copper Purchase Contract" above
LNG Contract	Company C and Fuyu	RMB8,670,000 (HK$10,835,000)	RMB8,670,000 (HK$10,835,000)	See under the subheading " Company C – Shantou City Jiali Trading Co., Ltd." above
Renovation Contract	Company A	RMB22,000,000 (HK$27,493,000)	RMB22,000,000 (HK$27,493,000)	No such measure is necessary given the substantial performance of contract as stated under the sub-heading "Deposits for renovation of vessels and transportation service"
Deposit for procurement of inventory	Company D	HK$25,000,000	HK$25,000,000	See under the subheading "Deposit paid for procurement of inventory " above
Advertising Contract	Company E	HK$2,515,015	Nil	n/a
Advertising Contract	Company F	HK$2,000,000	Nil	n/a

FORMATION OF THE SPECIAL COMMITTEE AND ENGAGEMENT OF INTERNAL CONTROL CONSULTANT

In connection with the recommendation of the Audit Committee, a special committee has been formed ("**Special Committee**"). The membership of the Special Committee comprises an non-executive Director, Mr. Lau Sung Tat Vincent and an executive Director, Mr. Rong Changjun who is also the vice-chairman of the Company. The terms of reference of the Special Committee include, among other things, (a) looking into the matters giving rise to the disclaimer of opinions and making the appropriate recommendations and (b) authorising the Special Committee to instruct external advisers as it considers appropriate to assist with its work.

Also in connection with the recommendation of the Audit Committee, ZHONGHUI ANDA Risk Services Limited, a firm of outside professional internal control review consultants ("**Internal Control Consultant**"), has been engaged to carry out an internal control review in view of the disclaimers opinion. The scope of the internal control review includes studying the Group's control procedures in place; considering the Group's implementation of the relevant procedures during the period from 1 April 2017 to 31 March 2018; reporting on any weaknesses and recommendations; and carrying follow-up review as appropriate. The Internal Control Consultant has commenced their field work and it is expected that their report will become available in the second half of November 2018.

With the report of the Internal Control Consultant, the Board should be in a better position to adopt the appropriate measures to strengthen the Group's internal control procedures with a view to preventing matters giving rise to the disclaimer of opinions from arising in the future.

The Company will give an update on the work of the Internal Control Consultant as and when appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – IMPAIRMENT OF GOODWILL

References are made to pages 82 and 103 of the Annual Report under the sub-heading "Critical accounting judgement and key sources of estimation uncertainty – Impairment of goodwill" and "Goodwill", respectively. In relation to the write-off of the carrying amount of the goodwill in relation to the digital application business, the Board would like to provide the following supplemental information to the shareholders of the Company:

As announced by the Company on 21 November 2013, 3 Dynamics had entered into a co-operation agreement and a supplemental agreement ("**Co-operation Agreement**"), respectively, with a professional 3-dimensional animation studio ("**Animation Studio**") pursuant to which the Animation Studio shall (i) exclusively authorize and provide its animation works and cartoon characters to 3 Dynamics and (ii) work as the exclusive worldwide distributor of the game consoles whereby 3 Dynamics shall use such materials to develop and manufacture handheld electronic game consoles ("**Electronic Software**"). During the financial period commencing from 1 April 2017 to 28 February 2018, the executive directors had regularly met with the Vendor on a monthly basis to follow up on the status of the development of the Electronic Software. As 3 Dynamics and Animation Studio have not been able to share a consistent concept in the development of the Electronic Software and 3 Dynamics has not been able to fulfil Animation Studio's requirements, the development of the Electronic Software was not successful. Given the Co-operation Agreement was due to expire on 28 February 2018, 3 Dynamics and Animation Studio have decided to end the cooperation upon the expiration of the Co-operation Agreement. As the development of the Electronic Software has been terminated, the Company does not expect to generate any revenue from the digital application business in the near future. For the said reason, the Board resolved on 28 February 2018 to write off the remaining balance of the carrying value of the goodwill on the digital application business.

PROFIT GUARANTEE

References are made to page 24 of the Announcement and page 11 of the Annual Report. Pursuant to the terms of the SPA dated 21 November 2013, the Vendor irrevocably and unconditionally warranted and guaranteed to Dynamic Miracle that the audited net profits after tax of 3 Dynamics in the Relevant Period shall not be less than HK$42,000,000. This Profit Guarantee was secured by 140,000,000 Escrow Shares of the Company issued to the Vendor (the number of which, after adjustment for share sub-division and consolidation, is now 73,870,000). As certified by the previous auditor of 3 Dynamics, 3 Dynamics made no profit for the Relevant Period pursuant to the SPA. The Board would like to provide the following supplemental information to the shareholders of the Company:

During the year ended 31 March 2018, the Company had been in continuous negotiations with the Vendor to recover the Contingent Consideration Receivables and had issued several letters to the Vendor demanding payment of the Contingent Consideration Receivables. Due to the change in market conditions resulting in the drop in prices of the Escrow Shares, proceeds from the sale of the Escrow Shares are no longer sufficient to satisfy the full amount of the Contingent Consideration Receivables. Given the shortfall, the Company has been in discussions with the Vendor on ways to recover the full amount of the Contingent Consideration Receivables. As announced by the Company on 18 July 2017, the Vendor proposed to settle the Contingent Consideration Receivables by selling the Escrow Shares and by transferring equity interest in the Project. The Company had conducted financial and legal due diligence on the Project, and given the uncertainties attached to the Project, the Board has resolved not to accept the Project in settlement of the Contingent Consideration Receivables.

The Contingent Consideration Receivables remain outstanding as at the date of this announcement. Given the significant drop in the prices and trading volume of the Shares (which equally apply to the Escrow Shares), the Board believes that the chance of recovering the full amount of the Contingent Consideration Receivables by selling the Escrow Shares in the near future is low.

Accordingly, the Board has set a preliminary timeline of one year from now during which the Board will, with due regard to trading volume/prices of the Shares and other market conditions and legal advice, consider selling the Escrow Shares. During the same period, the Board will, with due regard to legal advice, from time to time assess and implement the appropriate steps for safeguarding the Company's assets in respect of the Contingent Consideration Receivables.

The Company has already sought and adopted some preliminary legal advice on the possible legal actions that may be taken against the Vendor. The Board is currently seeking detailed legal advice and will give an update as and when appropriate.

Having regard to the fact (i) that various negotiations have been carried out with the Vendor, (ii) due assessment has been made in relation to taking up the Project as a remedial measure, (iii) the drop in prices and liquidity of the Escrow Shares is something beyond the control of the Company, and that (iv) measures referred to above have been formulated, the Board believes that the Company has taken appropriate steps and measures to safeguard the Company's assets in respect of the Contingent Consideration Receivables.

FUNDRAISING ACTIVITIES

References are made to page 42 of the Announcement and page 14 of the Annual Report. On 4 January 2017, the Company as issuer and the Subscriber entered into the Subscription Agreement in relation to the subscription of the Subscription Shares of HK$0.101 per Subscription Share. The maximum gross proceeds from the Subscription was approximately HK$70,700,000. The maximum net proceeds from the Subscription was approximately HK$70,280,000, which was used as general working capital of the Group, development and expansion of the existing businesses of the Group and/or for financing future investment opportunities. The Subscription Agreement was approved by the Shareholders at the extraordinary general meeting held on 10 February 2017. The transaction was completed on 24 April 2017.

The Board would like to provide the following supplemental information to the shareholders of the Company:

The following table sets forth the status of the use of net proceeds from the Subscription up to 31 March 2018:

	Total use of net proceeds from the issue of the Subscription up to 31 March 2018
Interest paid on promissory notes *(Note 30 of Annual Report)*	HK$9,687,000
Redemption of promissory note *(Note 30 of Annual Report)*	HK$20,200,000
Interest paid on unsecured interest-bearing bond *(Note 31(b) of Annual Report)*	HK$4,500,000
Earnest money paid for procurement of inventory (for further information please refer to the information set out under the sub-heading "Deposit paid for procurement of inventory" above)	HK$25,000,000
Expansion of the chemical trading business of the Group in PRC	HK$10,893,000
Total	**HK$70,280,000**

By Order of the Board
China Oil Gangran Energy Group Holdings Limited
Zou Donghai
Chairman

Hong Kong, 31 August 2018

As at the date of this announcement, the executive Directors are Mr. Zou Donghai, Mr. Rong Changjun, Dr. Ho Chun Kit Gregory and Dr. Zheng Jian Peng; and the independent non-executive Director is Mr. Lau Sung Tat, Vincent.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the commission of which would make any statement herein or this announcement misleading.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at http://www.hkgem.com for at least 7 days from the date of its posting and on the websites of the Company at www.chinaoilgangran.com and http://chinaoilgangran.todayir.com.