

IMPORTANT ANNOUNCEMENT TO THE BONDHOLDERS OF THE

**US\$400,000,000 6.125% Bonds due 2019 issued by
China Energy Reserve and Chemicals Group International Company Limited with the
benefit of a keepwell deed and a deed of equity interest purchase and investment
undertaking provided by China Energy Reserve and Chemicals Group Company Limited
(中國國儲能源化工集團股份公司)**

(ISIN: XS1328315723 Common Code: 132831572)

(the "Bonds")

1. DEFINITIONS AND INTRODUCTION

1.1 This announcement is made by the Issuer and the Keepwell Provider (each as defined below).

1.2 In this announcement:

"Bondholders" means the holders of the Bonds;

"Issuer" means China Energy Reserve and Chemicals Group International Company Limited; and

"Keepwell Provider" means China Energy Reserve and Chemicals Group Company Limited (中國國儲能源化工集團股份公司).

2. NON-PAYMENT OF PRINCIPAL AND INTEREST ON 2018 BONDS

2.1 China Energy Reserve and Chemicals Group Overseas Capital Company Limited ("**CERCG Overseas Capital**"), a wholly-owned subsidiary of the Keepwell Provider, had issued an aggregate principal amount of US\$350,000,000 5.25 per cent. guaranteed bonds due 2018 guaranteed by the Keepwell Provider (the "**2018 Bonds**").

2.2 The 2018 Bonds fell due for final redemption on 11 May 2018 (the "**2018 Bonds' Maturity Date**") and CERCG Overseas Capital failed to pay the principal amount and accrued interest on the 2018 Bonds on such date (the "**Payment Default**").

2.3 On 14 May 2018, CERCG Overseas Capital remitted the accrued interest on the 2018 Bonds to its account with the principal paying agent in respect of the 2018 Bonds (the "**Principal Paying Agent**"). Following the implementation of special arrangements with the clearing systems to process the payment of interest without principal, on 16 May 2018, the accrued interest on the 2018 Bonds up to the 2018 Bonds' Maturity Date was paid by the Principal Paying Agent to the holders of the 2018 Bonds, although the principal amount of the 2018 Bonds and interest accruing since the 2018 Bonds' Maturity Date remain unpaid as of the date of this announcement.

2.4 The Payment Default has triggered an event of default under the 2018 Bonds ("**Event of Default**"). The Payment Default and Event of Default have also triggered cross-defaults under certain other issued bonds to which CERCG Overseas Capital and/or the Keepwell Provider are party, including the Bonds ("**Cross Defaults**").

3. REASONS FOR NON-PAYMENT AND SUSPENSION OF INTEREST PAYMENTS

3.1 Due to the tightening in credit conditions in the PRC over the last two years, the Keepwell Provider has had restricted access to financing channels in the PRC, including bank loans and onshore bond issues. As the cash flow and capital requirements of the Keepwell Provider and its subsidiaries (the "**Group**") have continued to increase, this has resulted

in a liquidity crunch on the Group. While the Group anticipates it will continue its business operations as usual, it plans to divest certain of its assets in order to resolve its current cash flow difficulties and further announcements will be made in due course.

- 3.2 While the Group is contemplating making asset divestments, the Issuer and the Keepwell Provider propose to suspend all interest payments on any Bonds which are payable in 2018 with effect from, and including, the date of this announcement.
- 3.3 The Issuer, CERCG Overseas Capital and the Keepwell Provider are working with all relevant stakeholders to remedy the Event of Default and the Cross Defaults as soon as possible. The Issuer and the Keepwell Provider propose to engage with the Bondholders and their advisors to discuss this, including the suspension of interest payments and a potential consensual restructuring of the Bonds.
- 3.4 Should Bondholders require any further information, please contact our legal advisors, Ashurst at email: cercg@ashurst.com.

By Order of the Boards of

China Energy Reserve and Chemicals Group International Company Limited
China Energy Reserve and Chemicals Group Company Limited

Hong Kong
25 May 2018

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